

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 /106 W

-----097037 200826Z /11

P 200610Z APR 78

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 6812

C O N F I D E N T I A L SECTION 1 OF 2 ISLAMABAD 3909

E.O. 11652: GDS

TAGS: ECON, EFIN, PK

SUBJECT: SUPPLEMENTAL INFORMATION ON GOP EXTERNAL FINANCIAL
SITUATION

REF: (A) STATE 075890, (B) ISLAMABAD 2839,
(C) ISLAMABAD 2838, (D) ISLAMABAD A-40

1. THIS MESSAGE CONTAINS SUPPLEMENTAL INFORMATION REQUESTED REF
A, TO EMBASSY BOP FORECAST IN REF B. THE ADDITIONAL INFORMATION
IS CONSISTENT WITH THE EMBASSY'S POLICY POSITION ON THE DEBT
ISSUE (REF C).

2. CURRENT SITUATION AND OUTLOOK FOR DOMESTIC ECONOMY IS
CONTAINED IN ECONOMIC TRENDS REPORT POUCHED TO DEPARTMENT AS
ENCLOSURE TO REF D.

3. GOP CONTINUES TO FOLLOW AN AUSTERE BUDGET AND THE BUDGET
STRATEGY INTRODUCED JANUARY 1 (ISLAMABAD 193) SEEMS TO HAVE BEEN
REALISTIC. GOP OFFICIALS BELIEVE THE BUDGET DEFICIT WILL BE
WITHIN
THEIR \$130-150 MILLION TARGET, EXPECIALLY SINCE CURRENT
BUDGET EXPENDITURES ARE SLIGHTLY BELOW ORIGINAL PROJECTIONS FOR
THE THIRD QUARTER.

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4. PAKISTANI BUDGETERS HAVE RECOMMENDED THAT NEXT YEAR'S BUDGET
BE CLOSE TO THIS YEAR'S \$3.7 BILLION AND HAVE SET A \$4.0 BILLION
TARGET. DEVELOPMENT EXPENDITURES ARE EXPECTED TO INCREASE BY A 10
PERCENT INFLATION FACTOR FROM \$1.7 TO \$1.9 ILLION.
NON-DEVELOPMENT EXPENDITURES SHOULD RISE BY ABOUT \$100 MILLION
FROM \$2.0 TO \$2.1 BILLION TO COVER INCREASED COST OF SUBSIDIES

FOR WHEAT AND WHEAT STORAGE.

5. ON THE REVENUE SIDE, THE GOP EXPECTS TO RAISE THE ADDITIONAL FUNDS THROUGH AN INFLATION-GENERATED INCREASE IN TAX RECEIPTS. THUS NEXT YEAR'S BUDGET DEFICIT IS EXPECTED TO REMAIN IN THE \$130-150 MILLION RANGE.

6. THE NEW ROLLING FIVE YEAR PLAN IS STILL IN PREPARATION. GOP OFFICIALS CONCEDE THAT THEY ARE LAGGING BEHIND SCHEDULE AND DO NOT EXPECT TO HAVE A DETAILED PLAN READY FOR THE JUNE CONSORTIUM MEETING. THEY APPEAR TO BE MAKING AN EFFORT TO BE REALISTIC AND ARE HAVING A DIFFICULT TIME MATCHING TARGETS, PROPOSED ACTIVITIES AND RESOURCES. WE DO NOT EXPECT THAT THE PLAN WILL HAVE A SIGNIFICANT IMPACT ON THE NEXT YEAR OR TWO'S ECONOMIC SITUATION.

7. OUR UPDATED FORECAST FOR PFY 79 BALANCE OF PAYMENTS IS PRESENTED BELOW. DETAILED ASSUMPTIONS ARE CONTAINED IN PARA 9. ESSENTIALLY, WE ASSUME THAT EMIGRANT REMITTANCES WILL CONTINUE TO RISE, THAT IMPORTS, EXCEPT FOR WHEAT AND EDIBLE OIL, WILL CONTINUE TO BE CONSTRAINED, THAT EXPORTS WILL INCREASE MODERATELY AND AID LEVELS REMAIN THE SAME. THE RESULT IS THAT THE CURRENT ACCOUNT DEFUVICIT (INCLUDING THE EFFECT ON DEBT SERVICE OF THE TERMINATION OF THE 1974 AGREEMENT) STAYS AT ABOUT THE SAME LEVEL IN PFY 79 AS WE EXPECT FOR PFY 78. FOR COMPARISON PURPOSES, WE HAVE ALSO REPEATED OUR FY 78 FORECAST (INCLUDING SOME MINOR DOWNWARD REVISIONS ON RICE AND "OTHER" EXPORTS TO REFLECT MOST

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RECENT DATA) IN THE FOLLOWING TABLE.

8. BOP FIGURES:

	PFY1978	PFY1979
MERCHANDISE ACCOUNT		
IMPORTS	-2770	-2985
WHEAT	120	200
EDIBLE OIL	140	155
FERTILIZER	130	135
POL	485	485
PEST.	35	35
CAP. GOODS	1310	1375
OTHER	550	600
EXPORTS	PLUS 1300	PLUS 1450
RICE	220	240
COTTON		
I		
	700	790
TRADE BALANCE	-1470	-1535
INVISIBLES	PLUS 301	PLUS 390
FREIGHT & INSURANCE	-260	-270
OTHER INVISIBLES	PLUS 25	PLUS 25

REMITTANCES	PLUS 1000	PLUS 1250
DEBT SERVICE	-464	-615
CURRENT ACCOUNT BAL.	-1169	-1145
INCLUDING UNREQUITED		
TRANSFERS		
AID INFLOWS	PLUS 1000	PLUS 1000
PROJECT	505	495
NON PROJECT	305	305
FOOD	190	200
UNCOVERED GAP	-169	-145

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C O N F I D E N T I A L SECTION 2 OF 2 ISLAMABAD 3909

9. IMPORT ASSUMPTIONS:

WHEAT - PROJECTED IMPORTS WILL BE 1.5 MILLION TONS.

- PRICE \$130/TON

EDIBLE OIL - PFY1979 IMPORTS WILL BE ABOUT 285,000 TONS.

- PRICE \$544/TON

FERTILIZER - ALTHOUGH A NEW FERTILIZER PLANT IS SCHEDULED TO COME

ON STREAM IN FY 79, INCREASING CONSUMPTION WILL NECESSITATE

SOMEWHAT HIGHER IMPORTS YHAN LAST YEAR.

POL - NO INCREASE IN PRICE OR QUANTITY.

OTHER - AUSTERITY BUDGET AND GOVERNMENT EFFORTS TO CURB OTHER

IMPORTS WILL HAVE SOME EFFECT.

- OTHER IMPORTS WILL INCREASE BY 6 PERCENT.

CAPITAL GOODS - RELATED TO LEVEL OF AID WHICH IS NOT EXPECTED TO

SHOW ANY INCREASE.

10. EXPORT ASSUMPTIONS:

RICE - EXPORTS WILL INCREASE AS A RESULT OF A RETURN TO

HISTORICAL TREND FOLLOWING THE DENATIONALIZATION EARLIER THIS

YEAR.

COTTON - 10 PERCENT INCREASE OVER PFY1978.

OTHER - PERCENTAGE INCREASE (15-20 PERCENT) IN PFY1979 WILL BE
THE SAME AS THE INCREASE IN PFY1978.

11. INVISIBLES ASSUMPTIONS:
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FREIGHT AND INSURANCE - UP BECAUSE OF INCREASED IMPORTS.
OTHER INVISIBLES - NO CHANGE.
REMITTANCES - INCREASE 25 PERCENT.
DEBT SERVICE - GOP FIGURE WHICH INCLUDES IRANIAN DEBT SERVICE.

12. AID ASSUMPTIONS: SAME LEVEL OF DISBURSEMENT AS THIS YEAR WITH
MIX SHIFTING SLIGHTLY TOWARD FOOD AID.
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